



“Ensuring Investor Protection”

SECURITIES AND EXCHANGE COMMISSION, GHANA

DIRECTIVE TO MARKET OPERATORS ON THE USE OF FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (“MARK-TO-MARKET”) VALUATION METHOD IN THE VALUATION OF CLIENTS’ INVESTMENT ASSETS /SECURITIES AND PORTFOLIOS IN THE SECURITIES SECTOR

DIRECTIVE NUMBER: SEC/DIR/002/10/2022

1.0 PREAMBLE

The Securities and Exchange Commission (hereinafter referred to as “SEC”) is the statutory body mandated by the Securities Industry Act 2016 (Act 929) as amended by the Securities Industry (Amendment) Act 2021 (Act 1062), (hereinafter referred to as ‘the Act) to promote the orderly growth and development of an efficient, fair, and transparent securities market in which investors and the integrity of the market are protected. The SEC also has a mandate to maintain surveillance over activities in securities to ensure orderly, fair, and equitable dealings in securities and to protect the integrity of the market in accordance with Section 2 and 3 of the Act.

2.0 COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

Pursuant to Sections 157 and 197 of the Act, the SEC hereby reminds all Fund Managers, Investment Advisers, Custodians, Broker Dealers and Trustees of Collective Investment Schemes to ensure that all audited accounts are prepared in accordance with Internationally Accepted Accounting Standards adopted by the Institute of Chartered Accountants (Ghana) (ICAG) and additional accounting rules prescribed by the SEC. The accounting standards currently adopted by ICAG is the International Financial Reporting Standards (IFRS). The SEC directs all Market Operators to comply with the provisions of IFRS 9 – Financial Instruments in the valuation of investment assets.

3.0 COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS 37

The SEC further directs Fund Managers, Investment Advisers, Custodians, Broker Dealers and Trustees of Collective Investment Schemes to report any contingent liabilities in accordance with International Accounting Standards 37 (IAS37).

4.0 RECENT MARKET DEVELOPMENTS

The SEC has taken note of the current high interest rate environment in Ghana with its adverse effects on liquidity in the secondary market for bonds, and high clients' redemption requests, necessitating the sale of investment securities ordinarily designated as held to maturity.

5.0 SPECIFIC DIRECTIVES ON COLLECTIVE INVESTMENT SCHEMES

5.1 USE OF FVOCI FOR VALUATION OF PORTFOLIOS (COLLECTIVE INVESTMENT SCHEMES)

Pursuant to sections 2, 3, 197 and 209 of the Act, the SEC hereby directs Fund Managers, Custodians and Trustees to use Fair Value through Other Comprehensive Income (FVOCI) in valuing portfolios of Collective Investment Schemes (Unit Trusts and Mutual Funds).

5.2 SOURCES OF PRICES FOR VALUATION

Fund Managers, Custodians and Trustees shall obtain prices available from the Ghana Stock Exchange (GSE) for listed equities, preference shares and exchange traded fund shares; and the Ghana Fixed Income Market (GFIM) for all listed fixed income securities to enable pricing of securities reflect market values. The Ghana Fixed Income Market (GFIM) shall make available end of day prices for all fixed income securities in 2023. In the interim, Fund Managers, Custodians and Trustees are directed to use average prices published by GFIM to Mark-to-market their fixed income securities. Unlisted securities shall be valued periodically taking into account market movements, contractual cashflows and recoverability of the underlying assets.

5.3 ALTERNATIVE VALUATION METHODS

Fund Managers, Custodians and Trustees of Collective Investment Schemes who may be constrained by their business models from using the Fair Value through Other Comprehensive Income (FVOCI) in the valuation of the scheme portfolios shall justify why they cannot comply with this Directive within one month from the date of its issue. Such Fund Managers, Custodians and Trustees shall also compute the FVOCI of their scheme portfolios alongside the valuation approach suggested for their business models, track the error and report to the SEC.

5.4 AMENDMENT OF SCHEME PARTICULARS

The Directors of Mutual Funds and Trustees of Unit Trusts shall take the necessary steps in accordance with section 86 of the Act to regularize or amend the scheme particulars at the next Annual General Meeting / Investors' Meeting.

5.5 BASIS FOR CHARGING OF MANAGEMENT FEES

Notwithstanding the method of valuation of each scheme, Fund Managers, Custodians and Trustees of Collective Investment Schemes shall charge fees only on 'Mark-to-Market' valuation of assets under management.

6.0 OBJECTIVE OF DIRECTIVE

The objective of this Directive is to provide consistency in the valuation of assets and portfolios in the securities Industry, ensure that the portfolios reflect market values, as well as protect investors of Collective Investment Schemes.

7.0 REVOCATION, VARIATION AND REVISION

The SEC may revise, amend, vary, or revoke this Directive.

8.0 INTERPRETATION

Where any doubt arises about the meaning of any provision contained in this Directive, the same shall be referred to the SEC and the interpretation provided by the SEC shall be final.

9.0 SANCTIONS FOR NON-COMPLIANCE

Where there is a breach of any provision stipulated in this Directive, the SEC may take any action(s) specified under section 157(2), 197(6), 209(4) /or any other provision applicable under the Act.

10.0 COMMENCEMENT OF THIS DIRECTIVE

This Directive is issued pursuant to sections 2, 3, 157, 197, and 209 of the Act as amended and shall take immediate effect and remain in force until otherwise revised, varied, amended, or revoked.

ISSUED BY ORDER OF

THE SECURITIES AND EXCHANGE COMMISSION

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DATE: OCTOBER 20, 2022